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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

----- In the Matter of -----)

PUBLIC UTILITIES COMMISSION)

Instituting a Proceeding to Investigate the)
Issues and Requirements Raised by, and)
Contained in, Hawaii Revised Statutes)
Chapter 486H, as Amended)

DOCKET NO. 05-0002

CHEVRON U.S.A., INC.'S MOTION FOR RECONSIDERATION
OF PORTIONS OF DECISION AND ORDER NO. 21952

AND

CERTIFICATE OF SERVICE

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COMMISSION

MICHAEL H. LAU, ESQ.
KENT D. MORIHARA, ESQ.
ISHIKAWA MORIHARA LAU & FONG, LLP
841 Bishop Street, Suite 400
Honolulu, Hawai'i 96813
Telephone No. (808) 528-4200

Attorneys for Applicant
CHEVRON U.S.A., INC.

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COMES NOW, CHEVRON U.S.A., INC., by and through its attorneys, and hereby moves the Honorable Public Utilities Commission of the State of Hawaii (the "Commission"), pursuant to §§6-61-137 and 6-61-41 of the Hawaii Administrative Rules, Rules of Practice and Procedure Before the Public Utilities Commission, to reconsider portions of Decision and Order No. 21952 filed on August 1, 2005. Chevron requests expedited treatment of this request in order that any pricing adjustments can be implemented before the gas caps become effective on September 1, 2005.

I. DISCUSSION.

Chevron has completed its review and analysis of Decision and Order No. 21952 and requests that the Commission reconsider its decision in several important respects. While Chevron continues to believe that price caps are bad public policy, Chevron's focus on this Motion for Reconsideration is for the Commission to reconsider (a) the Location Adjustment Factor and (b) the Zone Price Adjustment for Kauai.

Most fundamentally, as set forth in detail in Chevron's position statement filed with the Commission on July 1, 2005, Chevron continues to believe that price caps are not in the best interests of Hawaii consumers, and that free markets perform most efficiently and effectively in balancing supply and demand. Such regulatory schemes always have unintended

consequences. At best, they will create significant distortions and inefficiencies in the market. At worst, they will result in artificial shortages with major adverse impacts on the economy of Hawaii and on the welfare of individual consumers.

For these reasons, Chevron urges the Commission to reconsider the entire price cap mechanism with a view to adopting price caps which will reduce the risk of market distortions and the other adverse consequences that can be expected to flow from this legislation. As will be discussed below, the particular aspects of the gas caps that should be immediately reconsidered are the Location Adjustment Factor and the Zone Price Adjustment Factor for Kauai.

A. The Location Adjustment Factor Is Inaccurate.

The four cents per gallon location adjustment factor does not reflect actual transportation costs and should be adjusted upward. Act 77, enacted during the 2002 legislative session, established a baseline of average spot prices for unleaded regular gasoline for the U.S. West Coast. A location factor of four cents per gallon was adopted to represent the cost of freight from the West Coast.

In the 2004 legislative session, Act 242 made various amendments to the Hawaii Gas Cap law. It changed the baseline from the West Coast to the average spot price for unleaded regular gasoline for the U.S. Gulf Coast, New York Harbor, and Los Angeles. However, in adopting this change, the Legislature failed to increase the location adjustment factor to account for increased freight cost associated with the greater distances from the revised baseline locations. The Legislature also failed to take into account the overall increases in freight costs experienced worldwide since the enactment of Act 77 in 2002.

The PUC's consultant, ICF Consulting, also commented on the inadequacy of the location adjustment factor set forth in the statute. In addition, ICF agreed with assertions by a

number of parties that certain other costs associated with import capability (such as capital expenditure costs and the large inventory carrying costs for cargos in transit) should be included in order to reflect import parity costs. In their report to the Commission dated April 15, 2005, ICF stated (page 20) that the location factor proposed was “extraordinarily low compared to the costs that ICF has determined for these voyages.”

For these reasons, Chevron requests that the Commission reconsider and upwardly adjust the location adjustment factor.

B. Zone Price Adjustment for Kauai.

Decision and Order No. 21951 adopted the following zone price adjustments:

- | | |
|---|----------|
| a. Zone 2: Kauai: | 13.6 cpg |
| b. Zone 3: Maui, except the district of Hana: | 20.4 cpg |
| c. Zone 7: The districts of Puna, south Hilo, north Hilo, and Hamakua on the island of Hawaii: | 21.3 cpg |
| d. Zone 8: The districts of north Kohala, south Kohala, and north Kona on the island of Hawaii: | 23.2 cpg |

Chevron is not aware of any reasonable basis to explain why distribution costs for Zone 2 were deemed to be so much lower than for Zones 3, 7 and 8. Comparatively speaking, Chevron is unable to discern why the distribution costs to service Kauai would be any different than Maui or the Big Island. Moreover, Decision and Order No. 21952 included reference to testimony that was provided by Mr. Jeff Guest, a jobber-served dealer on Kauai, who pointed out the significant travel time and physical distance between his station in Princeville and Lihue (Decision and Order No. 21952 at pg. 28-29). Chevron can only speculate that jobber

distribution costs for the island of Kauai were not properly considered.

Based on the apparent discrepancy in the zone price adjustments for Kauai, Chevron requests that the Commission reconsider and upwardly adjust the zone price adjustment applicable to the island of Kauai.

DATED: Honolulu, Hawaii, August 15, 2005.

A handwritten signature in black ink, appearing to read "MHL", is written over a horizontal line.

MICHAEL H. LAU
KENT D. MORIHARA

Attorneys for Chevron U.S.A. Inc.

CERTIFICATE OF SERVICE

I hereby certify that on this date I served copies of the foregoing document upon the following parties, by causing hereof to be mailed, postage prepaid, properly addressed, or hand delivered, to the following:

DIVISION OF CONSUMER ADVOCACY
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
P. O. Box 541
Honolulu, Hawaii 96809

CRAIG I. NAKANISHI, ESQ.
RUSH MORE LLP
737 Bishop St., Suite 2400
Honolulu, HI 96813

CLIFFORD K. HIGA, ESQ.
BRUCE NAKAMURA, ESQ.
KOBAYASHI, SUGITA & GODA
First Hawaiian Center
999 Bishop St., Suite 2600
Honolulu, HI 96813

KELLY G. LAPORTE, ESQ.
MARC E. ROUSSEAU, ESQ.
CADES SCHUTTE LLP
1000 Bishop St., Suite 1200
Honolulu, Hawaii 96813

DATED: Honolulu, Hawaii, August 15, 2005.



MICHAEL H. LAU
KENT D. MORIHARA

Attorneys for Chevron U.S.A., Inc.